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June 26, 2000

By Hand

David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: *Proceeding to Establish "Permanent Prices" for Interconnection and Unbundled Network Elements*
Docket No. 97-01262

Dear Mr. Waddell:

Pursuant to the TRA's April 25, 2000, Order, enclosed are the original and thirteen copies of AT&T's Comments on Revised BellSouth Cost Studies.

If you have questions, please call me.

Sincerely,

Jim Lamoureux

Jim Lamoureux

Encls.

cc: Counsel for all Parties of Record (w/encls.)

POSTED
6-27-00

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

In Re: Petition to Convene A Contested Case Proceeding to Establish Permanent Prices for Interconnection and Unbundled Elements	))))	Docket No. 97-01262

AT&T'S COMMENTS ON REVISED BELLSOUTH COST STUDIES

Pursuant to the April 25, 2000, decision of the Tennessee Regulatory Authority ("TRA") in this proceeding, AT&T Communications of the South Central States, Inc. ("AT&T") submits the following Comments on the cost studies filed by BellSouth Telecommunications, Inc. ("BellSouth") on June 9, 2000.

In its cover letter, BellSouth once again complains about the rates produced by the TRA's adjustments to BellSouth's cost studies. The TRA has heard these complaints several times now: in testimony, in the hearing, in briefs, in motions for reconsideration, and in comments addressing revised cost studies. As the TRA has repeatedly determined, the adjustments made by the TRA to BellSouth's cost studies are thoroughly supported by the record in this proceeding.

Moreover, the TRA has already acted upon BellSouth's requests that the TRA reconsider its decisions, and, in some cases, the TRA granted BellSouth's requests. There certainly are no grounds for any further reconsideration of the TRA's decisions. The TRA should stand firm by its earlier decisions, should delay this proceeding no more, and should establish permanent cost-based UNE rates in Tennessee based on its prior decisions. BellSouth should not be permitted to ignore those decisions simply because, in its own mind, those decisions produce rates which are "too low."

With respect to the cost studies themselves, there remain two issues still in dispute. First, BellSouth still has not complied with the orders of the TRA concerning vertical features. Second, BellSouth has not complied with the TRA's directive that BellSouth incorporate into its Tennessee cost studies any benefits of advances in technology reflected in cost studies in other states. Additionally, BellSouth's deaveraging methodology does not comply with FCC rules, and it appears that BellSouth has not complied with the TRA's decision adopting the AT&T/MCI collocation cost model. Finally, BellSouth has for the first time proposed rates for loop-transport combinations, which AT&T recommends that the TRA hold in abeyance until all parties have sufficient time and opportunity to review those rates and the cost studies underlying them.

I. BELLSOUTH HAS NOT COMPLIED WITH THE TRA'S ORDERS CONCERNING RATES FOR VERTICAL FEATURES

BellSouth continues to misconstrue the TRA's decisions on vertical features. Ms. Petzinger testified in this proceeding that it is inappropriate to include additional costs for vertical features in the price of switching, since features are not usage sensitive; nearly all costs associated with features are included in the initial cost of purchasing a switch and are thus already reflected in the cost of the port. *Petzinger Reb.* at 21-26 (Oct. 17, 1997). In its decision on June 30, 1998, the TRA agreed that a price for switching with all vertical features should be established. *Tr.* at 33-34. The TRA also determined that the SCIS model should be run in the marginal mode, which assumes a switch with all vertical features and assigns all Getting Started Investment to non-traffic sensitive investment, thus avoiding having to allocate any Getting Started Investment to any individual features. *Id.* at 32. "Under this approach, permitted costs of switching should reflect only the actual traffic-sensitive cost of a full-feature switch." *Id.*

In its *Interim Order*, the TRA very specifically held that "the price of the switch port should include all features." *Interim Order* at 25. It further reiterated that "the price of the switch port should include all features with ***no additional charges***." *Id.* at 26. (Emphasis added.) The TRA's decision on this issue was based specifically on the testimony of Ms. Petzinger.

The TRA affirmed its decision in its *Order on Reconsideration*. The TRA clarified that the only appropriate costs associated with features that may be added to the cost of the port are the costs of specialized hardware, right-to-use fees, and administrative provisioning time. *Order on Reconsideration* at 30. However, as Ms. Petzinger testified, most such costs are already included in the cost of the switch and thus already reflected in the cost of the port. *Petzinger Reb.* at 25. Thus, only the cost for specialized hardware, right-to-use fees, and administrative provisioning time not already included in the cost of BellSouth's switches may be included as additional costs in the port. At the April 25, 2000, Directors' Conference, the TRA ordered that "BellSouth should adjust its cost studies by removing the separate charges for vertical features, such that a switch port includes all features." *Tr.* at 13.

It appears that BellSouth still has not complied with the TRA's Orders on this issue. Rather, BellSouth continues to include separate, additional costs for vertical features beyond the limited costs approved by the TRA (i.e., additional right-to-use fees, etc.). All BellSouth has done is add the sum of all its additional vertical feature costs to the cost of the various port elements to derive higher port costs. Thus, in its cost study filing, BellSouth says that "feature costs were grouped according to the associated port and added to the recurring costs." *See* p. vi. This clearly does not reflect the decisions of the TRA on this issue.

BellSouth has never submitted any evidence that any vertical feature has any additional cost associated with any right-to-use fee, special hardware, or administrative provisioning time. BellSouth continues to calculate additional costs associated with vertical features in violation of the TRA's orders on this issue. Accordingly, the TRA should reject BellSouth's proposed UNE port prices. Rather, the TRA should adopt the following basic port recurring prices proposed by BellSouth, which are the basic port prices without any additional cost for vertical features:

Rate Element	Port	Rate
B.1.1	2-Wire Analog Line Port (Res., Bus)	$1.46
B.1.2	4-Wire Analog Line Port	$7.94
B.1.3	2-Wire DID Port	$8.26
B.1.4	4-Wire DID Port	$35.06
B.1.5	2-Wire ISDN Port	$15.73
B.1.6	4-Wire ISDN ISDN DS1 Port	$74.26
B.1.7	2-Wire Analog Line Port (PBX)	$1.46
B.1.8	Coin Port	$1.74

The TRA also should order that such prices include the provision of all vertical features available in BellSouth's switches.

II. BELLSOUTH HAS NOT INCLUDED IN ITS TENNESSEE COST STUDIES THE BENEFITS OF TECHNOLOGY ADVANCES REFLECTED IN ITS COST STUDIES IN OTHER STATES

In its decision on April 25, 2000, the TRA held:

> The TRA made clear in its interim order that, quote, prices should be established using the forward-looking economic cost methodology as defined by the FCC's TELRIC methodology, close quote. That decision placed a fiduciary responsibility on all parties, CLEC and ILEC alike, to ensure that the methodology adopted here is populated only with those costs that reflect the least cost and most efficient technology. To the extent that BellSouth presents new technology in other venues, it has, as articulated in the Authority's interim order, a responsibility to include that technology and studies filed in Tennessee.

Tr. at 13-14. BellSouth has not complied with this directive of the TRA.

In conjunction with a Georgia UNE cost proceeding (Docket No. 10692-U), BellSouth filed cost studies for UNE combinations, including loop-switching combinations. In its Georgia cost studies, BellSouth made changes to reflect the advance of forward-looking technology. BellSouth, however, did not make those same changes in its cost studies filed with the TRA on June 9, 2000. Since BellSouth included the reduced costs associated with this advance in technology in its cost studies filed in Georgia to reflect forward-looking TELRIC assumptions, they should be made in Tennessee for the same reason, as directed by the TRA in its April 25, 2000, decision.

In particular, in its Georgia cost studies, BellSouth revised its assumptions concerning the cost and capacity of digital loop carrier equipment.[1] Such changes produced significantly lower investment costs for digital loop carrier equipment in BellSouth's Georgia cost studies. BellSouth did not make similar revisions to its digital

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[1] This is not the issue concerning the amount of IDLC in the cost studies, which the TRA resolved in its April 25, 2000, decision. Rather, this issue concerns the cost and capacity of DLC

loop carrier cost and capacity assumptions in its Tennessee cost studies, even though the equipment is the same in both its Tennessee and Georgia cost studies. As a result, BellSouth's estimated digital loop carrier investment per digital loop carrier loop is substantially lower in its Georgia cost studies than in its Tennessee cost studies. AT&T estimates that the following average recurring rates would be produced if BellSouth incorporated in its Tennessee cost studies the same assumptions concerning digital loop carrier equipment cost and capacity that it assumed in its Georgia cost studies:[2]

Rate Element	Element	Rate
A.1.1	2-Wire Analog Voice Grade Loop-Service Level 1	$13.52
A.1.2	2-Wire Analog Voice Grade Loop-Service Level 2	$16.60
A.2.1	Loop Feeder per 2-Wire Analog Voice Grade Loop	$7.77
A.4.1	4-Wire Analog Voice Grade Loop	$22.61
A.5.1	2-Wire ISDN Digital Grade Loop	$25.96
A.10.1	4-Wire 56 or 64 Kbps Digital Grade Loop	$24.77
P.1.1	2-Wire Voice Grade Loop with 2-Wire Line Port	$14.54
P.3.1	2-Wire Voice Grade Loop with 2-Wire Voice Grade Loop with 2-Wire DID Trunk Port	$19.16
P.4.1	2-Wire ISDN Digital Grade Loop with 2-Wire ISDN Digital Line Side Port	$41.28

The TRA should order the adoption of these rates consistent with its April 25, 2000, decision in this proceeding.

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equipment.

2 These are the average recurring rates. These rates would still need to be deaveraged based on the deaveraging methodology and ratios adopted by the TRA. These rates also include in them the adjustments to the port rates set forth in Section I, above.

III. BELLSOUTH'S DEAVERAGING METHODLOGY DOES NOT COMPLY WITH FCC RULES

BellSouth proposes to deaverage its Tennessee loop prices by lumping together its Tennessee wire centers by rate group and then determining the average cost of wire centers that have the same retail rates. This is the same methodology BellSouth proposed and the TRA adopted for deaveraging BellSouth's interim Tennessee loop prices. However, BellSouth's proposal to deaverage loop rates through the use of the average cost of wire centers that have the same retail cost is a violation of FCC rules.

BellSouth's proposal violates the FCC's UNE pricing rules. 47 C.F.R. §§ 51-503 require that BellSouth's UNE prices be based on forward looking economic cost. BellSouth's retail rate groups in Tennessee are not currently based on forward looking economic cost. Therefore, BellSouth's proposal to deaverage loop rates based on its current rate groups violate 47 C.F.R. §§ 51-503, because it does not result in forward looking economic cost based deaveraged loop rates. Additionally, 47 C.F.R. § 51.505(d) states that the revenues of other services cannot be considered in the development of a UNE rate. BellSouth's proposal violates 47 C.F.R. § 51.505(d) by considering the revenues included in the services of its rate groups in the development of its deaveraged loop rates.

The FCC's deaveraging rule and its rules governing UNE rates require that the only consideration in determining geographically deaveraged UNE rates is the forward looking economic cost differences caused by different geographic areas. If something other than forward looking economic cost is used to deaverage that average rate, such as retail rates, the resulting deaveraged rates will not be cost based, which would violate §§ 51.503 and 51.505 of the FCC's rules. Deaveraged UNE rates must reflect the relative forward looking economic cost differences of UNEs between geographic areas.

In order to comply with the FCC's UNE pricing rules, AT&T recommends that BellSouth's loop rates be deaveraged by evaluating BellSouth's loop costs by wire center. These cost differences should be applied to the average loop rates to determine deaveraged rates. Wire centers with similar cost characteristics should be grouped together to create deaveraged rates.

AT&T proposes that the TRA adopt the methodology advocated by Sprint in other jurisdictions for deaveraging loop rates. Sprint has proposed to deaverage UNE rates according to the principle that a rate should be deaveraged when the TELRIC rate of providing the element anywhere within a defined geographic area deviates significantly from the average price for the element across the defined area. Sprint proposes a 20% deviation as a reasonable estimate of a "significant" deviation. Thus, the deaveraged rate for a loop in a particular geographic area should be no more than 20% of the of the average loop rate. This methodology produces the following rate zones for Tennessee:

	Lower 20% Bound	Median	Upper 20% Bound	Avg. Cost	Zone Weighting
Zone 1	12.01	15.01	18.01	$16.82	**68.83%**
Zone 2	18.11	21.73	26.08	$21.31	**87.20%**
Zone 3	26.37	31.64	37.97	$31.15	**127.46%**
Zone 4	38.06	45.67	54.81	$45.71	**187.03%**
Zone 5	55.53	66.64	79.96	$64.52	**264.02%**
Zone 6	80.22	96.26	115.52	$84.64	**346.35%**

Each average loop rate (i.e., 2-Wire Analog Voice Grade Loop-Service Level 1, 4-Wire Analog Voice Grade Loop, etc.), as well as every rate for a UNE combination which includes a loop (i.e., 2-Wire Voice Grade Loop with 2-Wire Line Port, 2-Wire Voice Grade Loop with 2-Wire Voice Grade Loop with 2-Wire DID Trunk Port, etc.) would then be multiplied by the above zone weighting percentages, rather than the three weighting percentages recommended by BellSouth (*see* p. vi-vii of the June 9, 2000, cost studies), to derive deaveraged UNE loop rates for Tennessee. AT&T recommends that the TRA reject BellSouth's proposed deaveraging methodology as inconsistent with the FCC's UNE pricing and deaveraging rules and adopt AT&T's proposed deaveraging methodology.

IV. THE TRA HAS ALREADY ADOPTED THE AT&T/MCI COLLOCATION MODEL

In its January 25, 1999, *Interim Order*, the TRA adopted the AT&T/MCI collocation cost model. The TRA affirmed its decision to adopt the AT&T/MCI collocation cost model in its November 3, 1999, *Order re Petitions for Reconsideration.* AT&T does not understand the TRA's April 25, 2000, decision to adopt BellSouth's cost studies as a decision to reconsider its prior decisions to adopt the AT&T/MCI collocation cost model. Rather, AT&T understands the TRA's April 25, 2000, decision as limited to adopting BellSouth's cost studies for recurring and non-recurring rates other than rates for collocation (e.g., recurring and non-recurring rates for loops, switching, etc.).

In its June 9, 2000, UNE rate proposal, it appears that BellSouth has proposed collocation rates based on BellSouth's cost studies. Accordingly, AT&T requests that the TRA affirm its decision to adopt the AT&T/MCI collocation cost model and order that rates for collocation are the rates calculated by the AT&T/MCI collocation cost model.

V. THE TRA SHOULD HOLD IN ABEYANCE THE ADDITIONAL COMBINATION RATES PROPOSED BY BELLSOUTH

In its June 9, 2000, cost studies, BellSouth for the first time proposed rates for certain additional combinations of loops and transport. *See* June 9, 2000, cost studies at vi. The TRA's April 25, 2000, order did not direct BellSouth to file cost studies for these combinations. AT&T agrees that rates should be established for these combinations. However, AT&T believes it would be inappropriate to adopt rates based solely on a cost study filed by BellSouth at this time. Rather, AT&T believes additional time, as well as the possibility for limited discovery and adversarial review be permitted for a proper evaluation of the rates BellSouth has proposed for these combinations. Accordingly, AT&T recommends that the TRA not adopt the rates proposed by BellSouth, that the TRA hold in abeyance the adoption of rates for these combinations, and either convene a new proceeding to consider these rate elements or include them in the proceeding the TRA has convened to consider rates for line sharing and network terminating wire (Docket No. 00-00544).

CONCLUSION

There remain two areas in which BellSouth's cost studies do not comply with the decisions of the TRA in this proceeding. First, BellSouth has not complied with the TRA's decisions concerning vertical features. Second, BellSouth has not complied with the TRA's decision concerning advances in technology reflected in BellSouth's cost studies in other states. Additionally, BellSouth's proposed deaveraging methodology does not comply with FCC rules, and BellSouth appears to have proposed collocation rates based on its cost studies rather than the AT&T/MCI collocation cost model already adopted by the TRA.

In its final order adopting rates in this proceeding, the TRA should adopt the rates set forth by BellSouth in its June 9, 2000, filing, but should revise certain of those rates in accordance with AT&T's comments (e.g., revised loop rates, loop-switching rates, revised port rates, and rates from the AT&T/MCI collocation cost model). In addition, the TRA should hold in abeyance the question of rates for loop-transport combinations in order to provide all parties sufficient time and opportunity to review the rates proposed by BellSouth.

Respectfully submitted,

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Attorney for AT&T Communications of the South Central States, Inc.

June 26, 2000

NASHVILLE, TENNESSEE

In Re: Contested Case Proceeding to Establish Final Cost Based Rates for Interconnection and Unbundled Network Elements

Docket No: 97-01262

CERTIFICATE OF SERVICE

I, James P. Lamoureux, hereby certify that I have served a copy of the foregoing to the following counsel of record via U. S. First Class Mail, postage paid, this 26th day of June, 2000.

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